



# 2012 & THE VPF

It's been well-publicised that 2012 could be the last chance for exhibitors to take advantage of VPF programs to digitize their cinemas. Time is running out, and options for the unconverted are quickly diminishing. Now is the time for exhibitors to decide their future, as **EFA Partners** explains.

So, 2012 is upon us already. It's also a decade since the d-Cinema Age began with the studios' formation of Digital Cinema Initiatives (DCI), back in March 2002. But, while Digital was in development well before then, DCI's venture to establish industry specs brought with it much fanfare regarding the potential d-Cinema benefits. Depending on your source, U.S. and worldwide roll-out projections have varied tremendously over the past ten years. There have been never-ending debates about digital topics such as 2K vs. 4K; hard-drive vs. satellite; also 3D's longevity, and of course Alternative Content. The common thread through all of this has been that Exhibition's conversion to d-Cinema has been inevitable and that the studios, which benefit from significant distribution savings, should bear much of the cost via the virtual print fee (VPF) model.

Fast-forwarding from 2002 to the present: The conversion is well underway with over 22,000 digitized screens in North America, and over 50,000 worldwide. Exhibitors seem to have fallen into one of three camps: The "early adopters," which embraced the benefits of d-Cinema and are already since converted; the "realists," who, initially sceptical of Digital's benefits, have nonetheless converted (or are presently in the process), as they understand Digital is needed for their long-term viability; and, thirdly, the "traditionalists," who continue to be resistant to change, having been unsure as to whether or not Digital is here to stay.

While both the early adopters and realists have ongoing decision-making regarding 3D, Alternative Content and other d-Cinema topics, the traditionalists are faced with a much more difficult decision. Today, the writing is on the wall that Digital *is* here to stay, and that, at some point soon, film could be a thing-of-the-past. This scenario is compounded by the fact that many traditionalists comprise


smaller, independent operators facing competition from larger circuits that are already converted, or soon will be.

## SIGN-UP

Industry organizations – such as NATO, the studios, and others – have been pretty vocal about 2012 being perhaps the last year for signing-up with a d-Cinema integrator to receive VPFs, and that 2013 could well be the last year for the supply of film prints. While it's entirely possible that these dates could be extended, the studios do not have significant incentive to do so since the larger circuits are already converted and the Digital penetration is now relatively high in most markets. This became much clearer during the past year with d-Cinema announcements made from many large circuits. In addition, traditional 35mm distributors, like Deluxe and Technicolor, made announcements in 2011 for the repositioning of their businesses, understanding that film distribution is dwindling.

## INTEGRATION, CHOICE

Of course, the biggest hindrance to the Digital conversion of cinemas is the expense, which many traditionalists feel to be too high to justify converting their theatres – even with VPFs. Plus, sizable time and education is needed for selecting the appropriate equipment and d-Cinema integrator. The good news, however, is that exhibitors now have multiple options given that Cinedigm, Christie, GDC, and Sony all have viable integrator offerings and associated financing programs. There are pros and cons for each so they must be examined carefully to determine which will offer the best fit, depending on such factors as circuit and financial circumstances.

In addition to the integrator programs, there are now more financing alternatives. D-Cinema is considered to be more mature given the past few years of VPF devel- 




opment and d-Cinema equipment history. This has resulted in many local and regional financiers offering competitive loans and leases for large and small circuits, alike.

### LONG-TERM

The long-term impact of the Digital dynamic could be most significant, resulting in an imminent industry-shift. Traditionalists with smaller circuits that do *not* soon take advantage of VPFs, may decide that it isn't economically-viable to convert all of their theatres. The result would be that cinema operators will not convert their less profitable theatre locations or those with expiring leases. Similar decision-making will be needed by small arthouse and second-run operators. These sites potentially could be acquired by larger circuits desirous to expand in particular territories; or they could be shut down altogether. In either case, the result would necessarily tip the industry balance in favor of the majors.

By way of conclusion, exhibitors that have not yet embraced d-Cinema will have some tough decisions to make this year. Impending deadlines may be extended, but are likely to be short-term, so exhibitors should scrutinize the long-term outlook for each of their theatres. Such could include a digital conversion for some sites while selling off or closing others.

Since DCI's announcement, the industry has come a long way in transforming itself. But the d-Cinema conversion isn't yet complete and uncertainty lingers. The exhibitor's track record has remained resilient over past decades, during which many industry pundits had rashly announced the death of the sector. Those operators embracing the potential benefits of the d-Cinema Age – or at least comprehending that it will be a necessity for long-term viability – should no doubt continue to prove the experts wrong. 

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